

Message Text

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ACTION PM-07

INFO OCT-01 EA-11 ISO-00 L-03 AID-20 IGA-02 MC-02 CIAE-00

INR-10 NSAE-00 RSC-01 EB-11 OMB-01 COME-00 TRSE-00

DRC-01 /070 W

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R 301003Z JAN 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 701

SECDEF WASHDC

INFO CINCPAC

CJUSMAG PHIL

C O N F I D E N T I A L MANILA 1116

E.O. 11652: GDS

TAGS: MASS, BEXP, RP

SUBJECT: PHILIPPINE RIFLE MANUFACTURING PROJECT

REF: A) MANILA 10627; B) MANILA 14351

1. BEGIN SUMMARY: GOP HAS INFORMED MISSION THAT COLT BID FOR RIFLE PLANT EXPIRES MARCH 17. MISSION RECOMMENDS FAVORABLE FMS CREDIT DECISION PRIOR TO DEADLINE. END SUMMARY.

2. PHILIPPINE DEFENSE SECRETARY ENRILE AND EXECUTIVE SECRETARY MELCHOR TOOK OCCASION OF DOOLIN-CALDWELL VISIT TO EMPHASIZE IMPORTANCE OF EARLY DECISION ON GOP REQUEST FOR FMS CREDIT OF \$15.6 MILLION TO SUPPORT PROJECT SPLIT BETWEEN FYS 74 AND 75. GOP OFFICIALS NOTED LICENSE AGREEMENT (FURNISHED EA/PHIL) BETWEEN COLT AND THE GOP SIGNED ON 17 SEPTEMBER 1973, CONTAINED THE PROVISION IN PARA 5 THAT SHOULD FMS CREDIT NOT BE AVAILABLE WITHIN 180 DAYS FROM THAT DATE, EITHER GOP OR COLT MAY TERMINATE THE AGREEMENT. GOP ANTICIPATES SHARP INCREASE IN PROJECT COST IF FINANCING DIFFICULTIES PREVENT CONCLUSION OF CONTRACT BY MARCH 17 DEADLINE.
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3. MISSION STRONGLY RECOMMENDS EARLY AND FAVORABLE DECISION ON GOP REQUESTS FOR FMS CREDIT OF \$15.6 MILLION (DOOLIN AND CALDWELL CONCUR ON EARLY AND FAVORABLE DECISION SUBJECT TO AVAILABILITY OF FUNDS) ANALYSIS OF THE REQUEST AND JUSTIFICATION FOR MISSION SUPPORT PROVIDED BY REF A AND B.

4. IN ADDITION TO DETAILED ECONOMIC ANALYSIS OF PROPOSED PROJECT PROVIDED IN REFS A AND B, MISSION WOULD LIKE TO EMPHASIZE THAT PROPOSED PROJECT IS FROM POINT OF VIEW OF U.S. ECONOMIC INTERESTS MOST ATTRACTIVE OPTION BEING CONSIDERED BY PHILIPPINES. SPECIFICALLY, VALUE OF EXPORTS OF MACHINE TOOLS AND OTHER EQUIPMENT AS WELL AS PARTS, MATERIALS AND SERVICES WOULD BE INITIALLY GREATER THAN EXPORT VALUE OF ASSEMBLED WEAPONS IN ANY QUANTITIES THAT PHILIPPINES COULD BE EXPECTED TO ACQUIRE FROM U.S. IN ADDITION, EXPORTS OF MACHINE TOOLS AND ENGINEERING SERVICES TOGETHER WITH RIFLE PARTS AND MATERIALS WOULD PROMOTE DEMAND FOR HIGHER AVERAGE QUALITY OF LABOR THAN WOULD EXPORT OF ASSEMBLED WEAPONS ONLY.

5. FUTURE GOP SELF-RELIANCE EFFORTS WILL BE GREATLY INFLUENCED BY U.S. DECISION ON FMS CREDIT FOR THE COLT RIFLE PLANT, DUE TO THIS BEING THE FIRST MAJOR PROJECT UNDER THEIR SELF-RELIANCE DEFENSE PROGRAM (SRDP). IF FMS CREDIT IS REFUSED OR NOT MADE AVAILABLE BY DEADLINE, GOP CAN BE EXPECTED TO POSSIBLY PURSUE OTHER SOURCES OF WEAPONS. PARA 4, REF A NOTED THAT HECKLER-KOCH (GERMAN FIRM) IN PARTICULAR HAD A VIABLE ALTERNATIVE TO COLD SHOULD FMS CREDIT BE REFUSED. U.S. INABILITY SUPPORT THIS PROJECT ALSO WOULD BE MAJOR BLOW TO MISSION EFFORTS TO ENCOURAGE AND MAINTAIN PHILIPPINE RELIANCE ON U.S. SOURCES FOR MILITARY EQUIPMENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MOBILIZATION, SMALL ARMS, ARMS PRODUCTION
Control Number: n/a
Copy: SINGLE
Draft Date: 30 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974MANILA01116
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974016/aaaaaezw.tel
Line Count: 97
Locator: TEXT ON-LINE
Office: ACTION PM
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: A) MANILA 10627; B) MANILA 14351
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 07 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07-Aug-2002 by martinml>; APPROVED <17 DEC 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PHILIPPINE RIFLE MANUFACTURING PROJECT
TAGS: MASS, BEXP, RP
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005